

STAND. COM. REP. NO.

628

Honolulu, Hawaii

FEB 20 2007

RE: S.B. No. 994
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred S.B. No. 994 entitled:

"A BILL FOR AN ACT RELATING TO SEAWATER AIR CONDITIONING DISTRICT COOLING SYSTEMS,"

begs leave to report as follows:

The purpose of this measure is to allow the sale of cooling from seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

Testimony in support of this measure was received from Hawaii Energy Policy Forum and Honolulu Seawater Air Conditioning, LLC. The Department of Business, Economic Development, and Tourism and the Department of Taxation submitted comments.

Your Committee finds that the list for "qualified business" in a state enterprise zone already includes wind energy, and adding other alternative energy production would further promote the State's goal of lessening its dependency on fossil fuels.

Your Committee received a revenue impact statement from the Department of Taxation (Department) that stated the revenue loss to the State would be approximately \$5,200,000 in the first year.

In its methodology, the Department stated that according to the "From Ocean Depths, Air Conditioning for the Tropics", Environmental News Network, April 05, 2005, the proposed system would cost \$100,000,000. By applying the four per cent general

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excise tax (GET) rate, the amount of GET exemption would be \$4,000,000. The Department assumed the net profit to be twenty-five per cent of the cost, or \$25,000,000. By applying the six per cent average income tax rate, the amount of income tax would be \$1,500,000. The first year income tax credit (eighty per cent) amounted to \$1,200,000. The amount of employment security contributions was assumed to be one per cent of the net profit, and the premium tax rate is two and one-half per cent. The first year employment security contribution tax credit amounted to \$5,000. The total revenue loss is \$5.2 million (\$4,000,000 + \$1,200,000 + \$5,000).

Your Committee finds this measure is a positive step in meeting the State's goals for energy self sufficiency, and it is the intent of your Committee to encourage continuing legislative discussions.

Your Committee has amended this measure by inserting an effective date of July 1, 2025, for the purposes of further discussion.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 994, as amended herein, and recommends that it pass Third Reading in the form attached hereto as S.B. No. 994, S.D. 1.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Taxation,



CAROL FUKUNAGA, Chair



